



# County of Los Angeles CHIEF EXECUTIVE OFFICE

Kenneth Hahn Hall of Administration  
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WILLIAM T FUJIOKA  
Chief Executive Officer

March 15, 2011

**ADOPTED**

BOARD OF SUPERVISORS  
COUNTY OF LOS ANGELES

21 March 15, 2011

*Sachi A. Hamai*  
SACHI A. HAMAI  
EXECUTIVE OFFICER

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The Honorable Board of Supervisors  
County of Los Angeles  
383 Kenneth Hahn Hall of Administration  
500 West Temple Street  
Los Angeles, CA 90012

Dear Supervisors:

**THE REDEVELOPMENT AGENCY OF THE CITY OF VERNON'S REQUEST FOR  
SUBORDINATION OF CERTAIN PASS-THROUGH PAYMENTS TO THE COUNTY  
ON THE FIRST AMENDED INDUSTRIAL REDEVELOPMENT PROJECT  
(FIRST DISTRICT) (3 VOTES)**

**SUBJECT**

Resolution to deny the request by the Redevelopment Agency of the City of Vernon to subordinate the County of Los Angeles' right to receive certain pass-through payments from the Redevelopment Agency of the City of Vernon First Amended Industrial Redevelopment Project to the Agency's 2011 tax allocation bonds.

**IT IS RECOMMENDED THAT YOUR BOARD:**

Adopt a Resolution denying the request by the Redevelopment Agency of the City of Vernon to subordinate the County of Los Angeles' right to receive certain pass-through payments from the Redevelopment Agency of the City of Vernon First Amended Industrial Redevelopment Project to the Agency's 2011 tax allocation bonds.

**PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION**

The City of Vernon First Amended Industrial Redevelopment Project was adopted on July 14, 1998, while the original Vernon Industrial Redevelopment Project was adopted in November, 1990. The Redevelopment Agency of the City of Vernon (the "Agency") intends to issue new Bonds in 2011 (the "2011 Bonds"). The Agency is preparing to issue the 2011 Bonds for the purpose of financing a portion of redevelopment activities. The subordination of certain payments to taxing entities is required by law based on a

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timely agency request and showing that sufficient funds to pay both debt service and pass-through payments to affected taxing agencies will be available when payments are due. The County Chief Executive Officer received a subordination request from the Agency on January 31, 2011.

### **FISCAL IMPACT/FINANCING**

Health and Safety Code Section 33607.5(e) provides that certain pass-through payments to taxing entities may be subordinated to a redevelopment agency's payments for debt service. Section 33607.5(e) requires that in the redevelopment agency's request to an affected taxing entity to subordinate the amount to be paid to it to bonded indebtedness, the agency must provide the affected taxing entity substantial evidence that sufficient funds will be available to pay both the debt service and the required payments to the taxing entity. The Section further holds that, thereafter, the taxing entity must approve or disapprove the request for subordination within 45 days after the receipt of a request for subordination. The Section concludes that the taxing entity may disapprove the request only if it finds, based on substantial evidence, that the agency will not be able to pay the debt payments and the amount required to be paid to the taxing entities under Section 33607.5.

The Agency's tax increment projections, reviewed by this Office, indicate that the agency has not provided substantial evidence that it will be able to pay the debt payments and the amount required to be paid to it under Section 33607.5. Specifically, the City has provided insufficient coverage for the payment of required pass-through payments to the taxing entities. The schedule of debt service coverage submitted by the City relies upon net tax revenues above the annual bond payments for their existing 2005 Bonds and the 2011 Bonds which are subject to the Agency's prior obligations for contractual pass-through payments. Thus, the City's coverage for the annual bond payments for the 2005 Bonds and the 2011 Bonds is substantially lower than that reflected in the schedule of debt service submitted by the City.

The City's schedule of debt service coverage indicates that for the 2012-13 fiscal year the Project will generate \$62,000 in surplus tax revenues after debt payments and pass-through payments. According to the schedule, the estimated Adjusted Gross Tax Revenue for 2012-13 will be \$14.5 million. This compares to an estimated amount of \$14.0 million in 2011-12, or annual growth in excess of 3.5 percent. Because of the minimal coverage provided for both the debt payments and the pass-through payments, as well as the fact that the debt schedules for both the 2005 Bonds and the 2011 Bonds indicate increasing annual bond payments, there will not be sufficient tax revenues to pay for both the debt payments and the pass-through payments in the event that actual growth fall short of the estimate.

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In addition, the Exhibit provided by the Agency includes tax revenues from the Industrial Project, which was adopted in November, 1990, and includes contractual pass-through payments subject to Health and Safety Code Section 33607.7. The Agency is requesting subordination for pass-through payments subject to Health and Safety Code Section 33607.5. Therefore, the County does not have the authority to grant permission for subordination of the Industrial Project contractual pass-through payments.

### **FACTS AND PROVISIONS/LEGAL REQUIREMENTS**

Section 33607.5(e)(3) provides: "If the affected taxing entity does not act within 45 days after receipt of the agency's request, the request to subordinate shall be deemed approved and shall be final and conclusive." Failure to act within 45 days after receipt of the agency's request (in this case, March 17, 2011) constitutes County approval of the agency's request to subordinate to the bonds.

### **CONCLUSION**

At such time as the recommendation is approved by your Board, please return one copy of this letter and Resolution to the Chief Executive Office, Operations Cluster, Quality and Enrichment Programs and Services Branch, and one copy of the letter and Resolution to the Auditor-Controller, Tax Division.

Respectfully submitted,



WILLIAM T FUJIOKA  
Chief Executive Officer

WTF:ES:MKZ  
FC:RTM:ib

Attachment

c: Executive Office, Board of Supervisors  
County Counsel  
Executive Director, Redevelopment Agency of the City of Vernon

**RESOLUTION OF THE BOARD OF SUPERVISORS OF THE COUNTY OF  
LOS ANGELES TO DENY THE REDEVELOPMENT AGENCY OF THE CITY OF  
VERNON'S REQUEST TO SUBORDINATE THE COUNTY'S RIGHT TO RECEIVE  
CERTAIN PASS-THROUGH PAYMENTS TO THE FIRST AMENDED INDUSTRIAL  
REDEVELOPMENT PROJECT, 2011 BOND ISSUANCE**

**WHEREAS**, the City Council of the City of Vernon adopted the original Industrial Redevelopment Project Area in November, 1990;

**WHEREAS**, the City Council of the City of Vernon on July 14, 1998, adopted the amended Redevelopment Plan, which included the addition of the 1999 Annex Area, for the redevelopment project known as "the First Amended Industrial Redevelopment Project (the "Project");

**WHEREAS**, the Redevelopment Agency of the City of Vernon (the "Agency") intends to issue Bonds in 2011 (hereafter referred to as the "2011 Bonds");

**WHEREAS**, the 2011 Bonds will be payable from tax increment revenues collected within the Project area;

**WHEREAS**, the County of Los Angeles ("County") received a letter on January 31, 2011 from the Agency advising its intention to issue the 2011 Bonds, and requesting that the County subordinate its statutory pass-through payments to the payment of debt service on the proposed 2011 Bonds;

**WHEREAS**, the Agency made its request pursuant to Health & Safety Code Section 33607.5 ("Section 33607.5");

**WHEREAS**, Section 33607.5 provides that the amount required to be paid to an affected taxing entity may be subordinated to bonds under certain circumstances;

**WHEREAS**, Section 33607.5 requires that in the redevelopment agency's request to an affected taxing entity to subordinate the amount to be paid to it to bonded indebtedness, the agency must provide the affected taxing entity substantial evidence that sufficient funds will be available to pay both the debt service and the required payments to the taxing entity; and that thereafter, the taxing entity must approve or disapprove the request for subordination within 45 days after the receipt of a request for subordination; and that the taxing entity may disapprove the request only if it finds, on substantial evidence, that the agency will not be able to pay the debt payments and the amount required to be paid to the taxing entity under Section 33607.5;

**WHEREAS**, the County finds that the agency has not provided substantial evidence that it will be able to pay the debt payments and the amount required to be paid to it under Section 33607.5. The schedule of debt service coverage submitted by the City relies upon net tax revenues above the annual bond payments for the 2005 Bonds and the 2011 Bonds which are subject to the Agency's prior obligations for

Deny Redevelopment Agency of the City of Vernon's  
Request to Subordinate the County's Right  
to Receive Pass-Through Payments  
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contractual pass-through payments. Thus, the City's coverage for the annual bond payments for the 2005 Bonds and the 2011 Bonds is substantially lower than that reflected in the schedule of debt service submitted by the City. Additionally, the City projects growth in assessed values in the Project Area to increase at a fairly steady rate, averaging greater than 3.0 percent, while actual growth in the Project Area over time has been extremely volatile. Accordingly, the county of Los Angeles finds that there will not be sufficient tax increment generated by the Project to reasonably ensure payment of both the debt service on the Bonds and the required pass-through payments to the taxing entities over the term of the proposed obligation.

**NOW, THEREFORE, BE IT RESOLVED**, by the Board of Supervisors of the County of Los Angeles that:

Pursuant to Health and Safety Code section 33607.5, the County of Los Angeles hereby disapproves the Redevelopment Agency of the City of Vernon's request to subordinate The County's statutory pass-through payments, to the payments pledged from the Project to pay the principal of and interest on the 2011 Bonds.

The foregoing resolution was on the 15<sup>th</sup> day of March, 2011, adopted by the Board of Supervisors of the County of Los Angeles and ex officio the governing body of all other special assessment and taxing districts, agencies, and authorities for which the Board so acts.



SACHI A. HAMAI, Executive Officer-Clerk of  
the Board of Supervisors of the County of  
Los Angeles

By Lachelle Smitheman  
Deputy

APPROVED AS TO FORM

ANDREA ORDIN  
County Counsel

By Thomas McFall  
Deputy